BankUnited, Inc.
Form 10-Q
November 08, 2013

UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-Q

x QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

For the quarterly period ended September 30, 2013

OR

o TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

For the transition period from to

Commission File Number: 001-35039

BankUnited, Inc.

(Exact name of registrant as specified in its charter)

Delaware	**27-0162450**

(State or other jurisdiction of incorporation or organization)	(I.R.S. Employer Identification No.)
14817 Oak Lane, Miami Lakes, FL	**33016**
(Address of principal executive offices)	(Zip Code)

Registrant s telephone number, including area code: **(305) 569-2000**

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes x No o

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes x No o

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, or a smaller reporting company. See the definitions of large accelerated filer, accelerated filer and smaller reporting company in Rule 12b-2 of the Exchange Act.

Large accelerated filer x	Accelerated filer o
Non-accelerated filer o	Smaller reporting company o

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act). Yes o No x

Indicate the number of shares outstanding of each of the issuer s classes of common stock, as of the latest practicable date.

Class	**November 6, 2013**
Common Stock, $0.01 Par Value	100,926,893 Shares

BankUnited, Inc.

Form 10-Q

For the Quarter Ended September 30, 2013

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PART I FINANCIAL INFORMATION

Item 1. Financial Statements

BANKUNITED, INC. AND SUBSIDIARIES

CONSOLIDATED BALANCE SHEETS - UNAUDITED

(In thousands, except share and per share data)

		September 30, 2013		December 31, 2012
ASSETS				
Cash and due from banks:				
Non-interest bearing	$	42,360	$	61,088
Interest bearing		16,854		21,507
Interest bearing deposits at Federal Reserve Bank		463,311		408,827
Federal funds sold		3,154		3,931
Cash and cash equivalents		525,679		495,353
Investment securities available for sale, at fair value (including covered securities of $206,666 and $226,505)		3,871,948		4,172,412
Non-marketable equity securities		149,816		133,060
Loans held for sale		844		2,129
Loans (including covered loans of $1,550,974 and $1,864,375)		7,806,563		5,571,739
Allowance for loan and lease losses		(59,619)		(59,121)
Loans, net		7,746,944		5,512,618
FDIC indemnification asset		1,265,037		1,457,570
Bank owned life insurance		206,296		207,069
Other real estate owned (including covered OREO of $47,546 and $76,022)		48,510		76,022
Deferred tax asset, net		79,954		62,274
Goodwill and other intangible assets		69,240		69,768
Other assets		343,746		187,678
Total assets	$	14,308,014	$	12,375,953
LIABILITIES AND STOCKHOLDERS EQUITY				
Liabilities:				
Demand deposits:				
Non-interest bearing	$	1,680,004	$	1,312,779
Interest bearing		632,159		542,561
Savings and money market		4,429,034		4,042,022
Time		3,106,906		2,640,711
Total deposits		9,848,103		8,538,073
Short-term borrowings		6,015		8,175
Federal Home Loan Bank advances and other borrowings		2,363,745		1,916,919
Other liabilities		204,337		106,106
Total liabilities		12,422,200		10,569,273
Commitments and contingencies				
Stockholders equity:				
Common stock, par value $0.01 per share, 400,000,000 shares authorized; 100,860,270 and 95,006,729 shares issued and outstanding		1,009		950
				54

Preferred stock, par value $0.01 per share, 100,000,000 shares authorized; 5,415,794 shares of Series A issued and outstanding at December 31, 2012				
Paid-in capital		1,327,164		1,308,315
Retained earnings		504,702		413,385
Accumulated other comprehensive income		52,939		83,976
Total stockholders equity		1,885,814		1,806,680
Total liabilities and stockholders equity	$	14,308,014	$	12,375,953

The accompanying notes are an integral part of these consolidated financial statements.

BANKUNITED, INC. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF INCOME UNAUDITED

(In thousands, except per share data)

	Three Months Ended September 30, 2013	Three Months Ended September 30, 2012	Nine Months Ended September 30, 2013	Nine Months Ended September 30, 2012
Interest income:				
Loans	$ 158,332	$ 137,039	$ 458,183	$ 415,957
Investment securities available for sale	27,993	32,149	88,194	99,247
Other	1,359	1,117	3,780	3,306
Total interest income	187,684	170,305	550,157	518,510
Interest expense:				
Deposits	15,248	16,459	44,287	50,466
Borrowings	8,318	14,429	23,915	45,021
Total interest expense	23,566	30,888	68,202	95,487
Net interest income before provision for (recovery of) loan losses	164,118	139,417	481,955	423,023
Provision for (recovery of) loan losses (including $(2,837), $1,021, $(988) and $1,137 for covered loans)	2,604	6,374	19,452	17,866
Net interest income after provision for (recovery of) loan losses	161,514	133,043	462,503	405,157
Non-interest income:				
(Amortization) accretion of FDIC indemnification asset	(12,354)	3,432	(21,784)	14,513
Income from resolution of covered assets, net	24,592	17,517	64,362	39,602
Net loss on indemnification asset	(18,377)	(14,199)	(47,747)	(26,602)
FDIC reimbursement of costs of resolution of covered assets	2,040	3,566	7,165	13,415
Service charges and fees	3,634	3,095	10,355	9,440
Gain (loss) on sale of loans, net (including loss related to covered loans of $(4,286) and $(9,368) for the three and nine months ended September 30, 2013)	(4,081)	189	(8,782)	698
Gain on investment securities available for sale, net (including loss related to covered securities of $(963) for the nine months ended September 30, 2013)	1,066	6,035	6,288	6,931
Mortgage insurance income	310	2,571	1,212	8,910
Other non-interest income	4,476	3,478	14,160	16,841
Total non-interest income	1,306	25,684	25,229	83,748
Non-interest expense:				
Employee compensation and benefits	44,117	41,968	130,219	132,544
Occupancy and equipment	16,571	13,725	46,994	38,776
Impairment (recovery) of other real estate owned	(243)	1,385	1,456	7,980
Gain on sale of other real estate owned	(1,454)	(1,410)	(8,576)	(1,499)
Other real estate owned expense	533	1,756	2,663	5,193
Foreclosure expense	2,270	3,060	4,769	9,671
Deposit insurance expense	1,926	2,040	5,587	5,136
Professional fees	4,831	3,850	17,212	11,452
Telecommunications and data processing	2,842	3,379	9,694	9,730
Other non-interest expense	12,870	7,469	33,101	25,388
Total non-interest expense	84,263	77,222	243,119	244,371
Income before income taxes	78,557	81,505	244,613	244,534
Provision for income taxes	24,248	31,948	88,070	95,776
Net income	54,309	49,557	156,543	148,758

Preferred stock dividends				921				2,762
Net income available to common stockholders	$	54,309	$	48,636	$	156,543	$	145,996
Earnings per common share, basic (see Note 2)	$	0.52	$	0.48	$	1.52	$	1.45
Earnings per common share, diluted (see Note 2)	$	0.52	$	0.48	$	1.51	$	1.44
Cash dividends declared per common share	$	0.21	$	0.17	$	0.63	$	0.51

The accompanying notes are an integral part of these consolidated financial statements.

BANKUNITED, INC. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME - UNAUDITED

(In thousands)

	Three Months Ended September 30, 2013	Three Months Ended September 30, 2012	Nine Months Ended September 30, 2013	Nine Months Ended September 30, 2012
Net income	$ 54,309	$ 49,557	$ 156,543	$ 148,758
Other comprehensive income (loss), net of tax:				
Unrealized gains on investment securities available for sale:				
Net unrealized holding gain (loss) arising during the period	(5,780)	26,888	(40,173)	61,746
Reclassification adjustment for net securities gains realized in income	(654)	(3,707)	(3,862)	(4,257)
Net change in unrealized gains on securities available for sale	(6,434)	23,181	(44,035)	57,489
Unrealized losses on derivative instruments:				
Net unrealized holding gain (loss) arising during the period	(6,263)	(3,630)	3,686	(8,828)
Reclassification adjustment for net losses realized in income	3,572	2,786	9,312	8,243
Net change in unrealized losses on derivative instruments	(2,691)	(844)	12,998	(585)
Other comprehensive income (loss)	(9,125)	22,337	(31,037)	56,904
Comprehensive income	$ 45,184	$ 71,894	$ 125,506	$ 205,662

The accompanying notes are an integral part of these consolidated financial statements.

BANKUNITED, INC. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF CASH FLOWS - UNAUDITED

(In thousands)

	Nine Months Ended September 30, 2013	Nine Months Ended September 30, 2012
Cash flows from operating activities:		
Net income	$ 156,543	$ 148,758
Adjustments to reconcile net income to net cash used in operating activities:		
Amortization and accretion, net	(293,443)	(344,852)
Provision for loan losses	19,452	17,866
Income from resolution of covered assets, net	(64,362)	(39,602)
Net loss on indemnification asset	47,747	26,602
(Gain) loss on sale of loans, net	8,782	(698)
Increase in cash surrender value of bank owned life insurance	(2,009)	(2,561)
Gain on investment securities available for sale, net	(6,288)	(6,931)
Gain on sale of other real estate owned	(8,576)	(1,499)
Equity based compensation	10,952	20,503
Depreciation and amortization	16,107	10,636
Impairment of other real estate owned	1,456	7,980
Deferred income taxes	1,761	(85,191)
Proceeds from sale of loans held for sale	31,677	32,922
Loans originated for sale, net of repayments	(29,806)	(29,975)
Realized tax benefits from dividend equivalents and equity based compensation	(1,164)	(954)
Gain on acquisition		(5,288)
Other:		
(Increase) decrease in other assets	7,564	(1,538)
Increase (decrease) in other liabilities	60,804	(32,562)
Net cash used in operating activities	(42,803)	(286,384)
Cash flows from investing activities:		
Net cash paid in business combination		(1,626)
Purchase of investment securities available for sale	(639,572)	(1,017,933)
Proceeds from repayments of investment securities available for sale	547,362	478,117
Proceeds from sale of investment securities available for sale	323,801	256,609
Maturities and calls of investment securities available for sale		71,123
Purchase of non-marketable equity securities	(31,137)	(34,652)
Proceeds from redemption of non-marketable equity securities	14,381	38,270
Purchases of loans	(906,447)	(501,608)
Loan originations, repayments and resolutions, net	(1,119,449)	(124,236)
Proceeds from sale of loans, net	85,821	
Decrease in FDIC indemnification asset for claims filed	123,002	408,551
Bank owned life insurance proceeds	2,782	
Purchase of premises and equipment, net	(16,194)	(23,695)
Acquisition of equipment under operating lease	(148,644)	
Proceeds from sale of other real estate owned	94,594	151,089
Net cash used in investing activities	(1,669,700)	(299,991)

(Continued)

The accompanying notes are an integral part of these consolidated financial statements.

BANKUNITED, INC. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF CASH FLOWS - UNAUDITED

(In thousands)

	Nine Months Ended September 30,			
	2013		2012	
Cash flows from financing activities:				
Net increase in deposits		1,310,075		658,060
Additions to Federal Home Loan Bank advances and other borrowings		2,425,000		1,470,000
Repayments of Federal Home Loan Bank advances and other borrowings		(1,980,002)		(1,475,388)
Increase (decrease) in short-term borrowings		(2,160)		415
Increase in advances from borrowers for taxes and insurance		25,444		22,203
Dividends paid		(43,430)		(49,867)
Realized tax benefits from dividend equivalents and equity based compensation		1,164		954
Exercise of stock options		6,738		2,899
Net cash provided by financing activities		1,742,829		629,276
Net increase in cash and cash equivalents		30,326		42,901
Cash and cash equivalents, beginning of period		495,353		303,742
Cash and cash equivalents, end of period	$	525,679	$	346,643
Supplemental disclosure of cash flow information:				
Interest paid	$	65,423	$	110,459
Income taxes paid	$	54,627	$	228,064
Supplemental schedule of non-cash investing and financing activities:				
Transfers from loans to other real estate owned	$	59,962	$	123,054
Assets received in satisfaction of loans	$		$	4,772
Dividends declared, not paid	$	21,796	$	17,486
Acquisition of assets under capital lease	$	1,820	$	
Unsettled securities trades	$		$	135,713
Conversion of Series A preferred stock to common stock	$	54	$	
Exchange of common stock for Series A preferred stock	$		$	54
Equity consideration issued in business combination	$		$	39,861

The accompanying notes are an integral part of these consolidated financial statements.

BANKUNITED, INC. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF STOCKHOLDERS EQUITY - UNAUDITED

(In thousands, except share data)

	Common Shares Outstanding	Common Stock	Preferred Shares Outstanding	Preferred Stock	Paid-in Capital	Retained Earnings	Accumulated Other Comprehensive Income	Total Stockholders Equity
Balance at December 31, 2012	95,006,729	$ 950	5,415,794	$ 54	$ 1,308,315	$ 413,385	$ 83,976	$ 1,806,680
Comprehensive income						156,543	(31,037)	125,506
Conversion of preferred shares to common shares	5,415,794	54	(5,415,794)	(54)				
Dividends						(65,226)		(65,226)
Equity based compensation	104,585	1			10,951			10,952
Forfeiture of unvested shares	(43,607)							
Exercise of stock options	376,769	4			6,734			6,738
Tax benefits from dividend equivalents and equity based compensation					1,164			1,164
Balance at September 30, 2013	100,860,270	$ 1,009		$	$ 1,327,164	$ 504,702	$ 52,939	$ 1,885,814
Balance at December 31, 2011	97,700,829	$ 977		$	$ 1,240,068	$ 276,216	$ 18,019	$ 1,535,280
Comprehensive income						148,758	56,904	205,662
Exchange of common shares for preferred shares	(5,415,794)	(54)	5,415,794	54				
Equity consideration issued in acquisition	1,676,060	17			39,844			39,861
Dividends						(52,432)		(52,432)
Equity based compensation	359,379	3			20,500			20,503
Forfeiture of unvested shares	(49,831)							
Exercise of stock options	201,895	2			2,897			2,899
Tax benefits from dividend equivalents and equity based compensation					954			954
Balance at September 30, 2012	94,472,538	$ 945	5,415,794	$ 54	$ 1,304,263	$ 372,542	$ 74,923	$ 1,752,727

The accompanying notes are an integral part of these consolidated financial statements.

BANKUNITED, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - UNAUDITED

September 30, 2013

Note 1 Basis of Presentation and Summary of Significant Accounting Policies

The consolidated financial statements include the accounts of BankUnited, Inc. (BankUnited, Inc. or BKU), a national bank holding company and its wholly-owned subsidiaries, BankUnited, National Association (BankUnited or the Bank) and BankUnited Investment Services, Inc. (BUIS), collectively, the Company. BankUnited, a national banking association headquartered in Miami Lakes, Florida, provides a full range of banking and related services to individual and corporate customers through 98 branches located in 15 Florida counties and 5 branches located in the New York metropolitan area as of September 30, 2013. BUIS was a Florida insurance agency providing wealth management and financial planning services. The operations of BUIS were discontinued in May 2013 and were not significant to the consolidated results of operations or financial position of the Company for any period presented.

On May 21, 2009, BankUnited acquired substantially all of the assets and assumed all of the non-brokered deposits and substantially all of the other liabilities of BankUnited, FSB from the Federal Deposit Insurance Corporation (FDIC) in a transaction referred to as the FSB Acquisition. Neither the Company nor the Bank had any substantive operations prior to May 21, 2009. In connection with the FSB Acquisition, BankUnited entered into Loss Sharing Agreements with the FDIC (Loss Sharing Agreements) that cover single family residential mortgage loans, commercial real estate, commercial and industrial and consumer loans, certain investment securities and other real estate owned (OREO), collectively referred to as the covered assets. Pursuant to the terms of the Loss Sharing Agreements, the covered assets are subject to a stated loss threshold whereby the FDIC will reimburse BankUnited for 80% of losses related to the covered assets up to $4.0 billion and 95% of losses in excess of this amount, beginning with the first dollar of loss incurred.

The accompanying unaudited consolidated financial statements have been prepared in accordance with generally accepted accounting principles for interim financial information and the instructions to Form 10-Q and Article 10 of Regulation S-X of the Securities and Exchange Commission (the SEC). Accordingly, they do not include all of the information and footnotes required for a fair presentation of financial position, results of operations and cash flows in conformity with U.S. generally accepted accounting principles (GAAP) and should be read in conjunction with the Company s consolidated financial statements and the notes thereto appearing in BKU s Annual Report on Form 10-K for the year ended December 31, 2012 filed with the SEC. In the opinion of management, all adjustments, consisting of normal recurring adjustments, considered necessary for a fair presentation have been included. Operating results for the nine months ended September 30, 2013 are not necessarily indicative of the results that may be expected in future periods.

Certain amounts presented for prior periods have been reclassified to conform to the current period presentation.

Accounting Estimates

In preparing the consolidated financial statements, management is required to make estimates and assumptions that affect the reported amounts of assets, liabilities, revenues, and expenses and disclosures of contingent assets and liabilities. Actual results could differ significantly from these estimates.

Significant estimates include the allowance for loan and lease losses, the amount and timing of expected cash flows from covered assets and the FDIC indemnification asset, the fair values of investment securities and other financial instruments and the valuation of OREO. Management has used information provided by third party valuation specialists to assist in the determination of the fair values of investment securities and OREO.

Note 2   Earnings Per Common Share

The computation of basic and diluted earnings per common share is presented below for the periods indicated (in thousands, except share and per share data):

BANKUNITED, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - UNAUDITED

September 30, 2013

	Three Months Ended September 30, 2013	Three Months Ended September 30, 2012	Nine Months Ended September 30, 2013	Nine Months Ended September 30, 2012
Basic earnings per common share:				
Numerator:				
Net income	$ 54,309	$ 49,557	$ 156,543	$ 148,758
Preferred stock dividends		(921)		(2,762)
Net income available to common stockholders	54,309	48,636	156,543	145,996
Distributed and undistributed earnings allocated to participating securities	(2,132)	(3,536)	(7,427)	(10,505)
Income allocated to common stockholders for basic earnings per common share	$ 52,177	$ 45,100	$ 149,116	$ 135,491
Denominator:				
Weighted average common shares outstanding	100,737,319	94,196,429	99,131,377	94,856,763
Less average unvested stock awards	(1,085,044)	(746,934)	(1,118,496)	(1,184,068)
Weighted average shares for basic earnings per common share	99,652,275	93,449,495	98,012,881	93,672,695
Basic earnings per common share	$ 0.52	$ 0.48	$ 1.52	$ 1.45
Diluted earnings per common share:				
Numerator:				
Income allocated to common stockholders for basic earnings per common share	$ 52,177	$ 45,100	$ 149,116	$ 135,491
Adjustment for earnings reallocated from participating securities	4	2,615	1,264	15
Income used in calculating diluted earnings per common share	$ 52,181	$ 47,715	$ 150,380	$ 135,506
Denominator:				
Average shares for basic earnings per common share	99,652,275	93,449,495	98,012,881	93,672,695
Dilutive effect of stock options and preferred shares	196,190	5,613,427	1,626,264	187,582
Weighted average shares for diluted earnings per common share	99,848,465	99,062,922	99,639,145	93,860,277
Diluted earnings per common share	$ 0.52	$ 0.48	$ 1.51	$ 1.44

The following potentially dilutive securities were outstanding at September 30, 2013 and 2012 but excluded from the calculation of diluted earnings per common share for the periods indicated because their inclusion would have been anti-dilutive:

	Three Months Ended September 30, 2013	Three Months Ended September 30, 2012	Nine Months Ended September 30, 2013	Nine Months Ended September 30, 2012
Unvested shares	1,139,864	973,322	1,139,864	973,222
Stock options and warrants	6,408,702	6,963,394	6,408,702	6,963,394
Convertible preferred shares				5,415,794

Note 3 Investment Securities Available for Sale

Investment securities available for sale consisted of the following at the dates indicated (in thousands):

BANKUNITED, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - UNAUDITED

September 30, 2013

	September 30, 2013							
	Covered Securities				Non-Covered Securities			
	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
U.S. Government agency and sponsored enterprise residential mortgage-backed securities	$	$	$	$	$ 1,529,106	$ 35,561	$ (5,824)	$ 1,558,843
U.S. Government agency and sponsored enterprise commercial mortgage-backed securities					27,292	162	(159)	27,295
Resecuritized real estate mortgage investment conduits (Re-Remics)					422,552	5,467	(392)	427,627
Private label residential mortgage-backed securities and CMOs	124,505	55,164	(90)	179,579	146,576	590	(1,514)	145,652
Private label commercial mortgage-backed securities					534,762	8,502	(12,409)	530,855
Collateralized loan obligations					373,755	311	(554)	373,512
Non-mortgage asset-backed securities					148,733	5,430	(37)	154,126
Mutual funds and preferred stocks	15,419	3,748		19,167	125,243	3,137	(1,603)	126,777
Small Business Administration securities					307,236	13,359		320,595
Other debt securities	3,520	4,400		7,920				
	$ 143,444	$ 63,312	$ (90)	$ 206,666	$ 3,615,255	$ 72,519	$ (22,492)	$ 3,665,282

	December 31, 2012							
	Covered Securities				Non-Covered Securities			
	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
U.S. Treasury and Government agency securities	$	$	$	$	$ 34,998	$ 157	$ (1)	$ 35,154
U.S. Government agency and sponsored enterprise residential mortgage-backed securities					1,520,047	64,476		1,584,523
U.S. Government agency and sponsored enterprise commercial mortgage-backed securities					58,518	1,898		60,416
Re-Remics					575,069	10,063	(90)	585,042

Private label residential mortgage-backed securities and CMOs	143,739	58,266	(185)	201,820	243,029	3,437	(201)	246,265
Private label commercial mortgage-backed securities					413,110	19,982		433,092
Collateralized loan obligations					252,280	908		253,188
Non-mortgage asset-backed securities					233,791	7,672	(117)	241,346
Mutual funds and preferred stocks	16,382	1,439	(361)	17,460	125,127	7,066		132,193
State and municipal obligations					25,127	249	(23)	25,353
Small Business Administration securities					333,423	6,187		339,610
Other debt securities	3,723	3,502		7,225	9,164	561		9,725
	$ 163,844	$ 63,207	$ (546)	$ 226,505	$ 3,823,683	$ 122,656	$ (432)	$ 3,945,907

At September 30, 2013, contractual maturities of investment securities available for sale, adjusted for anticipated prepayments of mortgage-backed and other pass-through securities, were as follows (in thousands):

	Amortized Cost	**Fair Value**
Due in one year or less	$ 496,559	$ 522,532
Due after one year through five years	1,948,189	2,000,144
Due after five years through ten years	981,367	999,316
Due after ten years	191,922	204,012
Mutual funds and preferred stocks with no stated maturity	140,662	145,944
	$ 3,758,699	$ 3,871,948

BANKUNITED, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - UNAUDITED

September 30, 2013

Based on the Company s proprietary assumptions, the estimated weighted average life of the investment portfolio as of September 30, 2013 was 4.3 years. The effective duration of the investment portfolio as of September 30, 2013 was 1.8 years. The model results are based on assumptions that may differ from actual results.

The carrying value of securities pledged as collateral for Federal Home Loan Bank (FHLB) advances, public deposits, interest rate swaps, securities sold under agreements to repurchase and to secure borrowing capacity at the Federal Reserve Bank totaled $0.9 billion at September 30, 2013 and December 31, 2012.

The following table provides information about gains and losses on investment securities available for sale for the periods indicated (in thousands):

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2013	2012	2013	2012
Proceeds from sale of investment securities available for sale	$ 81,971	$ 117,355	$ 323,801	$ 256,609
Gross realized gains	$ 1,155	$ 6,035	$ 7,345	$ 7,229
Gross realized losses	(89)		(94)	(298)
Net realized gain	1,066	6,035	7,251	6,931
Other-than-temporary impairment (OTTI)			(963)	
Gain on investment securities available for sale, net	$ 1,066	$ 6,035	$ 6,288	$ 6,931

During the nine months ended September 30, 2013, OTTI was recognized on an intermediate term mortgage mutual fund investment which had been in a continuous unrealized loss position for 34 months. Due primarily to the length of time the investment had been in a continuous unrealized loss position and an increasing measure of impairment, the Company determined the impairment to be other than temporary. This security is covered under the Loss Sharing Agreements, therefore, the impact of the impairment was significantly mitigated by an increase of $770 thousand in the FDIC indemnification asset, reflected in the consolidated statement of income line item Net loss on indemnification asset .

The following tables present the aggregate fair value and the aggregate amount by which amortized cost exceeded fair value for investment securities in unrealized loss positions, aggregated by investment category and length of time that individual securities had been in continuous unrealized loss positions, at the dates indicated (in thousands):

September 30, 2013

	Less than 12 Months		12 Months or Greater		Total	
	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses
U.S. Government agency and sponsored enterprise residential mortgage-backed securities	$ 395,950	$ (5,824)	$	$	$ 395,950	$ (5,824)
U.S. Government agency and sponsored enterprise commercial mortgage-backed securities	17,641	(159)			17,641	(159)
Re-Remics	93,820	(392)			93,820	(392)
Private label residential mortgage-backed securities and CMOs	82,175	(1,514)	1,405	(90)	83,580	(1,604)
Private label commercial mortgage-backed securities	307,952	(12,409)			307,952	(12,409)
Collateralized loan obligations	143,469	(554)			143,469	(554)
Non-mortgage asset-backed securities	16,392	(37)			16,392	(37)
Mutual funds and preferred stocks	67,567	(1,603)			67,567	(1,603)
	$ 1,124,966	$ (22,492)	$ 1,405	$ (90)	$ 1,126,371	$ (22,582)

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	December 31, 2012					
	Less than 12 Months		12 Months or Greater		Total	
	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses
U.S. Treasury and Government agency securities	$ 5,000	$ (1)	$	$	$ 5,000	$ (1)
Re-Remics	42,018	(16)	8,833	(74)	50,851	(90)
Private label residential mortgage-backed securities and CMOs	53,537	(185)	6,080	(201)	59,617	(386)
Non-mortgage asset-backed securities			10,566	(117)	10,566	(117)
Mutual funds and preferred stocks			15,082	(361)	15,082	(361)
State and municipal obligations	2,902	(23)			2,902	(23)
	$ 103,457	$ (225)	$ 40,561	$ (753)	$ 144,018	$ (978)

The Company monitors its investment securities available for sale for OTTI on an individual security basis. As discussed above, one security was determined to be other than temporarily impaired during the nine months ended September 30, 2013. No securities were determined to be other than temporarily impaired during the nine months ended September 30, 2012. The Company does not intend to sell securities that are in significant unrealized loss positions and it is not more likely than not that the Company will be required to sell these securities before recovery of the amortized cost basis, which may be at maturity. At September 30, 2013, 65 securities were in unrealized loss positions. Generally, increases in unrealized losses on investment securities available for sale arising during the nine months ended September 30, 2013 were attributable to an increase in medium and long-term market interest rates during the period and in certain cases, widening credit spreads and increases in liquidity premiums in response to rate volatility. The amount of impairment related to five of these securities was considered insignificant, totaling approximately $28 thousand and no further analysis with respect to these securities was considered necessary. The basis for concluding that impairment of the remaining securities is not other-than-temporary is further described below:

U.S. Government agency and sponsored enterprise residential and commercial mortgage-backed securities:

At September 30, 2013, 13 U.S. Government agency and sponsored enterprise residential and commercial mortgage-backed securities were in unrealized loss positions. All of these securities had been in unrealized loss positions for six months or less. The amount of impairment of each of the individual securities was less than 3% of amortized cost. The timely payment of principal and interest on these securities is explicitly or implicitly guaranteed by the U.S. Government. Given the limited severity and duration of impairment and the expectation of timely payment of principal and interest, the impairments were considered to be temporary.

Private label residential mortgage-backed securities and CMOs and Re-Remics:

At September 30, 2013, 17 private label residential mortgage-backed securities and Re-Remics were in unrealized loss positions. These securities were assessed for OTTI using third-party developed credit and prepayment behavioral models and CUSIP level constant default rates, voluntary prepayment rates and loss severity and delinquency assumptions. The results of these assessments were not indicative of credit losses related to any of these securities as of September 30, 2013. Thirteen of the securities had been in unrealized loss positions for five months or less and three for eleven months or less. These securities evidenced unrealized losses ranging from less than 1% to 5% of amortized cost. The remaining security had been in an unrealized loss position for 27 months and evidenced an unrealized loss of 8% of amortized cost. The market for this security is thin and the market price is adversely affected by lack of liquidity. This bond is considered an odd lot which can be detrimental to potential bids for the security. Given the generally limited duration and severity of impairment and the expectation of timely recovery of outstanding principal, the impairments were considered to be temporary.

Private label commercial mortgage-backed securities:

At September 30, 2013, 12 private label commercial mortgage-backed securities were in unrealized loss positions. Eleven of these securities had been in unrealized loss positions for five months or less and one for nine

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months; the amount of impairment ranged from less than 1% to 6% of amortized cost. These securities were assessed for OTTI using third-party developed models, incorporating assumptions consistent with the collateral characteristics of each security. The results of this analysis were not indicative of expected credit losses. Securities in this class generally have longer durations than the portfolio as a whole, so were more significantly impacted by the increase in rates. Given the limited severity and duration of impairment and the expectation of timely recovery of outstanding principal, the impairments were considered to be temporary.

Collateralized loan obligations:

At September 30, 2013, seven collateralized loan obligations were in unrealized loss positions. These securities had been in unrealized loss positions for five months or less and the amount of impairment was less than 1% of amortized cost. These securities were assessed for OTTI using internally developed models, incorporating market convention assumptions consistent with the collateral characteristics of each security. The results of this analysis were not indicative of expected credit losses. Given the limited severity and duration of impairment and the expectation of timely recovery of outstanding principal, the impairments were considered to be temporary.

Non-mortgage asset-backed securities:

At September 30, 2013, two non-mortgage asset-backed securities were in unrealized loss positions. These securities had been in unrealized loss positions for four months or less and the amount of impairment of each of the individual securities was less than 1% of amortized cost. These securities were assessed for OTTI using a third-party developed credit and prepayment behavioral model and CUSIP level constant default rates, voluntary prepayment rates and loss severity and delinquency assumptions. The results of this analysis were not indicative of expected credit losses. Given the limited severity and duration of impairment and the expectation of timely recovery of outstanding principal, the impairments were considered to be temporary.

Mutual funds:

At September 30, 2013, three investments in one mutual fund were in unrealized loss positions. These investments had been in unrealized loss positions for five months or less and the amount of impairment was less than 4% of amortized cost. The majority of the underlying holdings of the mutual fund are either explicitly or implicitly guaranteed by the U.S. Government. Given the limited severity and duration of impairment, the impairments were considered to be temporary.

Preferred stocks:

At September 30, 2013, six investments in two financial institution preferred stocks were in unrealized loss positions. These securities had been in unrealized loss positions for five months or less and the amount of impairment was less than 4% of amortized cost. Given the limited duration and results of the Company s analysis of the financial condition of the issuers of the financial institution preferred stocks, the impairments were considered to be temporary.

Note 4 Loans and Allowance for Loan and Lease Losses

A significant portion of the Company s loan portfolio consists of loans acquired in the FSB Acquisition. Substantially all of these loans are covered under BankUnited s Loss Sharing Agreements (the covered loans). Loans originated or purchased since the FSB Acquisition (new loans) are not covered by the Loss Sharing Agreements. Covered loans may be further segregated between those acquired with evidence of deterioration in credit quality since origination (Acquired Credit Impaired or ACI loans) and those acquired without evidence of deterioration in credit quality since origination (non-ACI loans).

Loans consisted of the following at the dates indicated (dollars in thousands):

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	September 30, 2013					
	Covered Loans		Non-Covered Loans			Percent of
	ACI	Non-ACI	ACI	New Loans	Total	Total
Residential:						
1-4 single family residential	$ 1,101,579	$ 75,563	$	$ 1,604,404	$ 2,781,546	35.7%
Home equity loans and lines of credit	42,108	135,019		1,657	178,784	2.3%
	1,143,687	210,582		1,606,061	2,960,330	38.0%
Commercial:						
Multi-family	35,516	636	8,043	658,275	702,470	9.0%
Commercial real estate	148,201	359	6,652	1,436,063	1,591,275	20.4%
Construction and land	11,295	742		78,096	90,133	1.2%
Commercial and industrial	6,361	6,786		1,954,853	1,968,000	25.3%
Lease financing				324,993	324,993	4.2%
	201,373	8,523	14,695	4,452,280	4,676,871	60.1%
Consumer	1,617			149,840	151,457	1.9%
Total loans	1,346,677	219,105	14,695	6,208,181	7,788,658	100.0%
Premiums, discounts and deferred fees and costs, net		(14,808)		32,713	17,905	
Loans net of premiums, discounts, deferred fees and costs	1,346,677	204,297	14,695	6,240,894	7,806,563	
Allowance for loan and lease losses	(3,345)	(10,743)		(45,531)	(59,619)	
Loans, net	$ 1,343,332	$ 193,554	$ 14,695	$ 6,195,363	$ 7,746,944	

	December 31, 2012					
	Covered Loans		Non-Covered Loans			Percent of
	ACI	Non-ACI	ACI	New Loans	Total	Total
Residential:						
1-4 single family residential	$ 1,300,109	$ 93,438	$	$ 920,713	$ 2,314,260	41.5%
Home equity loans and lines of credit	52,499	157,691		1,954	212,144	3.8%
	1,352,608	251,129		922,667	2,526,404	45.3%
Commercial:						
Multi-family	56,148	716		307,183	364,047	6.5%
Commercial real estate	173,732	910	4,087	794,706	973,435	17.5%
Construction and land	18,064	829		72,361	91,254	1.6%
Commercial and industrial	14,608	11,627		1,334,991	1,361,226	24.4%
Lease financing				225,980	225,980	4.1%
	262,552	14,082	4,087	2,735,221	3,015,942	54.1%
Consumer	2,239			33,526	35,765	0.6%
Total loans	1,617,399	265,211	4,087	3,691,414	5,578,111	100.0%
Premiums, discounts and deferred fees and costs, net		(18,235)		11,863	(6,372)	
Loans net of premiums, discounts, deferred fees and costs	1,617,399	246,976	4,087	3,703,277	5,571,739	
	(8,019)	(9,874)		(41,228)	(59,121)	

Allowance for loan and lease losses										
Loans, net	$	1,609,380	$	237,102	$	4,087	$	3,662,049	$	5,512,618

At September 30, 2013 and December 31, 2012, the unpaid principal balance (UPB) of ACI loans was $3.5 billion and $4.2 billion, respectively.

During the three and nine months ended September 30, 2013 and 2012, the Company purchased 1-4 single family residential loans totaling $331.2 million, $906.4 million, $159.9 million, and $501.6 million, respectively.

At September 30, 2013, the Company had pledged real estate loans with UPB of approximately $5.6 billion and carrying amounts of approximately $3.7 billion as security for FHLB advances.

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During the periods indicated, the Company sold covered 1-4 single family residential loans to third parties on a non-recourse basis. The following table summarizes the impact of these transactions (in thousands):

	Three Months Ended September 30, 2013	Nine Months Ended September 30, 2013
Unpaid principal balance of loans sold	$ 62,963	$ 165,201
Cash proceeds, net of transaction costs	$ 32,639	$ 85,821
Carrying value of loans sold	23,694	56,196
Net pre-tax impact on earnings, excluding gain on indemnification asset	$ 8,945	$ 29,625
Loss on sale of covered loans	$ (4,286)	$ (9,368)
Proceeds recorded in interest income	13,231	38,993
	$ 8,945	$ 29,625
Gain on indemnification asset	$ 5,626	$ 11,794

The Company did not sell any covered loans during the three and nine months ended September 30, 2012.

For the three and nine months ended September 30, 2013, loans with UPB of $26.0 million and $75.9 million, respectively, were sold from a pool of ACI loans with a zero carrying value. Proceeds of the sale of loans from this pool, representing realization of accretable yield, were recorded in interest income. The loss on the sale of loans from the remaining pools, representing the difference between the carrying amount and consideration received, was recorded in Gain (loss) on sale of loans, net in the accompanying consolidated statements of income. These losses were mitigated by increases in the FDIC indemnification asset, reflected in the consolidated statement of income line item Net loss on indemnification asset. Reimbursements from the FDIC under the terms of the Loss Sharing Agreements are calculated based on UPB rather than on the carrying value of the loans; therefore the amount of gain on indemnification asset reflected in the table above also includes amounts reimbursable from the FDIC related to loans sold from the pool with a zero carrying value.

Allowance for loan and lease losses

Activity in the allowance for loan and lease losses (ALLL) is summarized as follows for the periods indicated (in thousands):

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	Three Months Ended							
	September 30, 2013				September 30, 2012			
	Residential	Commercial	Consumer	Total	Residential	Commercial	Consumer	Total
Beginning balance	$ 18,115	$ 39,514	$ 802	$ 58,431	$ 16,331	$ 39,270	$ 34	$ 55,635
Provision for (recovery of) loan losses:								
ACI loans		(842)		(842)		(867)		(867)
Non-ACI loans	(1,815)	(180)		(1,995)	1,863	25		1,888
New loans	963	3,606	872	5,441	752	4,536	65	5,353
Total provision	(852)	2,584	872	2,604	2,615	3,694	65	6,374
Charge-offs:								
ACI loans		(117)		(117)		(296)		(296)
Non-ACI loans	(1,317)			(1,317)	(851)	(181)		(1,032)
New loans	(10)	(458)	(118)	(586)		(578)		(578)
Total charge-offs	(1,327)	(575)	(118)	(2,020)	(851)	(1,055)		(1,906)
Recoveries:								
Non-ACI loans	3	144		147	25	106		131
New loans		417	40	457		182		182
Total recoveries	3	561	40	604	25	288		313
Ending balance	$ 15,939	$ 42,084	$ 1,596	$ 59,619	$ 18,120	$ 42,197	$ 99	$ 60,416

	Nine Months Ended							
	September 30, 2013				September 30, 2012			
	Residential	Commercial	Consumer	Total	Residential	Commercial	Consumer	Total
Beginning balance	$ 19,164	$ 39,543	$ 414	$ 59,121	$ 10,175	$ 38,176	$ 51	$ 48,402
Provision for (recovery of) loan losses:								
ACI loans		(2,440)		(2,440)		(3,649)		(3,649)
Non-ACI loans	4,241	(2,789)		1,452	6,505	(1,719)		4,786
New loans	(4,423)	23,554	1,309	20,440	4,164	12,519	46	16,729
Total provision	(182)	18,325	1,309	19,452	10,669	7,151	46	17,866
Charge-offs:								
ACI loans		(2,234)		(2,234)		(2,761)		(2,761)
Non-ACI loans	(3,051)	(172)		(3,223)	(2,751)	(321)		(3,072)
New loans	(10)	(16,628)	(199)	(16,837)		(1,694)		(1,694)
Total charge-offs	(3,061)	(19,034)	(199)	(22,294)	(2,751)	(4,776)		(7,527)
Recoveries:								
Non-ACI loans	18	2,622		2,640	27	1,382		1,409
New loans		628	72	700		264	2	266
Total recoveries	18	3,250	72	3,340	27	1,646	2	1,675
Ending balance	$ 15,939	$ 42,084	$ 1,596	$ 59,619	$ 18,120	$ 42,197	$ 99	$ 60,416

The impact of provisions for (recoveries of) losses on covered loans is significantly mitigated by increases (decreases) in the FDIC indemnification asset, recorded in the consolidated statement of income line item Net loss on indemnification assetIncreases (decreases) in the FDIC indemnification asset of $(2.3) million and $(0.9) million were reflected in non-interest income for the three and nine months ended

September 30, 2013, respectively, and $0.9 million and $1.6 million for the three and nine months ended September 30, 2012, respectively, related to the provision for (recovery of) loan losses on covered loans, including both ACI and non-ACI loans.

The following table presents information about the balance of the ALLL and related loans at the dates indicated (in thousands):

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	September 30, 2013				December 31, 2012			
	Residential	Commercial	Consumer	Total	Residential	Commercial	Consumer	Total
Allowance for loan and lease losses:								
Ending balance	$ 15,939	$ 42,084	$ 1,596	$ 59,619	$ 19,164	$ 39,543	$ 414	$ 59,121
Ending balance: non-ACI and new loans individually evaluated for impairment	$ 900	$ 5,034	$	$ 5,934	$ 984	$ 1,533	$	$ 2,517
Ending balance: non-ACI and new loans collectively evaluated for impairment	$ 15,039	$ 33,705	$ 1,596	$ 50,340	$ 18,180	$ 29,991	$ 414	$ 48,585
Ending balance: ACI	$	$ 3,345	$	$ 3,345	$	$ 8,019	$	$ 8,019
Ending balance: non-ACI	$ 10,279	$ 464	$	$ 10,743	$ 9,071	$ 803	$	$ 9,874
Ending balance: new loans	$ 5,660	$ 38,275	$ 1,596	$ 45,531	$ 10,093	$ 30,721	$ 414	$ 41,228
Loans:								
Ending balance (1)	$ 2,960,330	$ 4,676,871	$ 151,457	$ 7,788,658	$ 2,526,404	$ 3,015,942	$ 35,765	$ 5,578,111
Ending balance: non-ACI and new loans individually evaluated for impairment (1)	$ 6,397	$ 23,854	$	$ 30,251	$ 5,302	$ 24,698	$	$ 30,000
Ending balance: non-ACI and new loans collectively evaluated for impairment (1)	$ 1,810,246	$ 4,436,949	$ 149,840	$ 6,397,035	$ 1,168,494	$ 2,724,605	$ 33,526	$ 3,926,625
Ending balance: ACI loans	$ 1,143,687	$ 216,068	$ 1,617	$ 1,361,372	$ 1,352,608	$ 266,639	$ 2,239	$ 1,621,486

(1) Ending balance of loans is before premiums, discounts, deferred fees and costs.

Credit quality information - New and non-ACI loans

Commercial relationships on non-accrual status with internal risk ratings of substandard or doubtful and with committed balances greater than or equal to $750,000 as well as loans that have been modified in troubled debt restructurings (TDRs) are individually evaluated for impairment. The tables below present information about new and non-ACI loans individually evaluated for impairment and identified as impaired at the dates indicated (in thousands):

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	September 30, 2013			December 31, 2012		
	Recorded Investment	Unpaid Principal Balance	Related Specific Allowance	Recorded Investment	Unpaid Principal Balance	Related Specific Allowance
New loans:						
With no specific allowance recorded:						
Multi-family	$	$	$	$ 3,649	$ 3,649	$
Commercial real estate	3,313	3,315		1,564	1,564	
Commercial and industrial	3,474	3,473		9,858	9,860	
With a specific allowance recorded:						
Commercial and industrial	13,707	13,722	4,263	4,377	4,381	649
Lease financing	1,345	1,345	771	1,677	1,677	884
Total:						
Residential	$	$	$	$	$	$
Commercial	21,839	21,855	5,034	21,125	21,131	1,533
	$ 21,839	$ 21,855	$ 5,034	$ 21,125	$ 21,131	$ 1,533
Non-ACI loans:						
With no specific allowance recorded:						
1-4 single family residential	$ 353	$ 420	$	$ 375	$ 446	$
Home equity loans and lines of credit	1,517	1,544		176	179	
Commercial real estate				59	59	
Commercial and industrial	1,996	1,999		3,506	3,508	
With a specific allowance recorded:						
1-4 single family residential	3,557	4,234	849	3,577	4,252	970
Home equity loans and lines of credit	196	199	51	417	425	14
Total:						
Residential	$ 5,623	$ 6,397	$ 900	$ 4,545	$ 5,302	$ 984
Commercial	1,996	1,999		3,565	3,567	
	$ 7,619	$ 8,396	$ 900	$ 8,110	$ 8,869	$ 984

Interest income recognized on impaired loans after impairment was not significant for any of the periods presented.

The following table presents the average recorded investment in impaired new and non-ACI loans for the periods indicated (in thousands):

Three Months Ended September 30,				Nine Months Ended September 30,			
2013		2012		2013		2012	
New Loans	Non-ACI Loans	New Loans	Non-ACI Loans	New Loans	Non-ACI Loans	New Loans	Non-ACI Loans

Residential:								
1-4 single family residential	$	$ 3,907	$	$ 3,409	$	$ 3,930	$	$ 2,459
Home equity loans and lines of credit		1,727				1,385		
		5,634		3,409		5,315		2,459
Commercial:								
Multi-family			7,866		912		4,855	
Commercial real estate	2,413		3,227	53	1,981	15	1,614	164
Construction and land			144				238	1,342
Commercial and industrial	16,756	2,146	7,065	5,125	17,034	2,531	5,533	3,810
Lease financing	1,428		839		1,511		419	
	20,597	2,146	19,141	5,178	21,438	2,546	12,659	5,316
	$ 20,597	$ 7,780	$ 19,141	$ 8,587	$ 21,438	$ 7,861	$ 12,659	$ 7,775

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The following table presents the carrying amount of new and non-ACI loans on non-accrual status at the dates indicated (in thousands):

	September 30, 2013		December 31, 2012	
	New Loans	**Non-ACI Loans**	**New Loans**	**Non-ACI Loans**
Residential:				
1-4 single family residential	$ 92	$ 764	$ 155	$ 2,678
Home equity loans and lines of credit		8,042		9,767
	92	8,806	155	12,445
Commercial:				
Commercial real estate	4,378	54	1,619	59
Construction and land	252		278	
Commercial and industrial	15,965	2,825	11,907	4,530
Lease financing	1,373		1,719	
	21,968	2,879	15,523	4,589
Consumer	76			
	$ 22,136	$ 11,685	$ 15,678	$ 17,034

New and non-ACI loans contractually delinquent by 90 days or more and still accruing totaled $0.5 million and $0.2 million at September 30, 2013 and December 31, 2012, respectively. The amount of additional interest income that would have been recognized on non-accrual loans had they performed in accordance with their contractual terms is not material.

The following tables summarize new and non-ACI loans that were modified in TDRs during the periods indicated, as well as new and non-ACI loans modified during the twelve months preceding September 30, 2013 and 2012, that experienced payment defaults during the periods indicated (dollars in thousands):

	Three Months Ended September 30,							
	2013				2012			
	Loans Modified in TDRs During the Period		TDRs Experiencing Payment Defaults During the Period		Loans Modified in TDRs During the Period		TDRs Experiencing Payment Defaults During the Period	
	Number of TDRs	Recorded Investment	Number of TDRs	Recorded Investment	Number of TDRs	Recorded Investment	Number of TDRs	Recorded Investment
New loans:								
Commercial and industrial	1	$ 1,871		$	3	$ 688		$
Non-ACI loans:								
1-4 single family residential		$		$	2	$ 248	1	$ 121
Commercial and industrial					1	17		

		$		$	3	$ 265	1	$ 121

	Nine Months Ended September 30,							
	2013				2012			
	Loans Modified in TDRs During the Period		TDRs Experiencing Payment Defaults During the Period		Loans Modified in TDRs During the Period		TDRs Experiencing Payment Defaults During the Period	
	Number of TDRs	Recorded Investment	Number of TDRs	Recorded Investment	Number of TDRs	Recorded Investment	Number of TDRs	Recorded Investment
New loans:								
Multi-family		$		$	1	$ 3,663		$
Commercial and industrial	2	2,364			6	1,686	1	245
	2	$ 2,364		$	7	$ 5,349	1	$ 245
Non-ACI loans:								
1-4 single family residential	2	$ 334	1	$ 166	4	$ 2,072	2	$ 294
Home equity loans and lines of credit	3	1,119						
Commercial and industrial					2	26		
	5	$ 1,453	1	$ 166	6	$ 2,098	2	$ 294

Modifications during the three and nine month periods ended September 30, 2013 and 2012 included restructuring of the amount and timing of required periodic payments, extensions of maturity and residential

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modifications under the U.S. Treasury Department s Home Affordable Modification Program (HAMP). Included in TDRs are residential loans to borrowers who have not reaffirmed their debt discharged in Chapter 7 bankruptcy. The total amount of such loans is not material. Because of the immateriality of the amount of loans modified in TDRs and nature of the modifications, the modifications did not have a material impact on the Company s consolidated financial statements or on the determination of the amount of the ALLL at September 30, 2013 and 2012.

Management considers delinquency status to be the most meaningful indicator of the credit quality of 1-4 single family residential, home equity and consumer loans. Delinquency statistics are updated at least monthly. Original loan to value ratio (LTV) and original FICO score are also important indicators of credit quality for the new 1-4 single family residential portfolio.

Internal risk ratings are considered the most meaningful indicator of credit quality for commercial loans. Internal risk ratings are a key factor in identifying loans that are individually evaluated for impairment and impact management s estimates of loss factors used in determining the amount of the ALLL. Internal risk ratings are updated on a continuous basis. Relationships with balances in excess of $750,000 are re-evaluated at least annually and more frequently if circumstances indicate that a change in risk rating may be warranted. Loans exhibiting potential credit weaknesses that deserve management s close attention and that if left uncorrected may result in deterioration of the repayment capacity of the borrower are categorized as special mention. Loans with well-defined credit weaknesses, including payment defaults, declining collateral values, frequent overdrafts, operating losses, increasing balance sheet leverage, inadequate cash flow, project cost overruns, unreasonable construction delays, past due real estate taxes or exhausted interest reserves, are assigned an internal risk rating of substandard. A loan with a weakness so severe that collection in full is highly questionable or improbable will be assigned an internal risk rating of doubtful.

The following tables summarize key indicators of credit quality for the Company s new and non-ACI loans at the dates indicated. Amounts are net of premiums, discounts, deferred fees and costs (in thousands):

Residential credit exposure, based on delinquency status:

	September 30, 2013		December 31, 2012	
	1-4 Single Family Residential	Home Equity Loans and Lines of Credit	1-4 Single Family Residential	Home Equity Loans and Lines of Credit
New loans:				
Current	$ 1,624,073	$ 1,657	$ 927,859	$ 1,811
Past due less than 90 days	6,441		7,619	143
Past due 90 days or more	505		193	
	$ 1,631,019	$ 1,657	$ 935,671	$ 1,954
Non-ACI loans:				
Current	$ 61,192	$ 121,629	$ 71,096	$ 140,975
Past due less than 90 days	2,063	2,942	5,057	4,005
Past due 90 days or more	222	8,042	2,431	9,767
	$ 63,477	$ 132,613	$ 78,584	$ 154,747

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1-4 Single Family Residential credit exposure for new loans, based on original LTV and FICO score:

	September 30, 2013 FICO				December 31, 2012 FICO			
LTV	740 or less	741 - 760	761 or greater	Total	740 or less	741 - 760	761 or greater	Total
60% or less	$ 84,027	$ 81,115	$ 415,296	$ 580,438	$ 62,433	$ 35,761	$ 217,249	$ 315,443
60% - 70%	58,481	71,149	290,191	419,821	29,138	41,863	159,068	230,069
70% - 80%	69,161	97,916	418,203	585,280	55,319	54,367	256,605	366,291
80% or more	33,134	3,150	9,196	45,480	18,327	1,200	4,341	23,868
	$ 244,803	$ 253,330	$ 1,132,886	$ 1,631,019	$ 165,217	$ 133,191	$ 637,263	$ 935,671

Consumer credit exposure, based on delinquency status:

	September 30, 2013	December 31, 2012
New loans:		
Current	$ 154,015	$ 33,488
Past due less than 90 days	617	54
Past due 90 days or more	75	
	$ 154,707	$ 33,542

Commercial credit exposure, based on internal risk rating:

	September 30, 2013					
	Multi-Family	Commercial Real Estate	Construction and Land	Commercial and Industrial	Lease Financing	Total
New loans:						
Pass	$ 658,402	$ 1,424,577	$ 77,692	$ 1,920,595	$ 326,388	$ 4,407,654
Special mention		1,534		3,766		5,300
Substandard	415	9,280	252	23,967	747	34,661
Doubtful		51		5,219	626	5,896
	$ 658,817	$ 1,435,442	$ 77,944	$ 1,953,547	$ 327,761	$ 4,453,511
Non-ACI loans:						
Pass	$ 633	$ 303	$ 698	$ 3,658	$	$ 5,292
Substandard		54		2,412		2,466
Doubtful				449		449
	$ 633	$ 357	$ 698	$ 6,519	$	$ 8,207

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	December 31, 2012					
	Multi-Family	Commercial Real Estate	Construction and Land	Commercial and Industrial	Lease Financing	Total
New loans:						
Pass	$ 299,303	$ 789,017	$ 71,724	$ 1,274,595	$ 226,022	$ 2,660,661
Special mention	3,110			18,249		21,359
Substandard	4,068	4,033	278	38,837	1,719	48,935
Doubtful		55		1,100		1,155
	$ 306,481	$ 793,105	$ 72,002	$ 1,332,781	$ 227,741	$ 2,732,110
Non-ACI loans:						
Pass	$ 703	$ 851	$ 775	$ 6,674	$	$ 9,003
Substandard	9	59		3,882		3,950
Doubtful				692		692
	$ 712	$ 910	$ 775	$ 11,248	$	$ 13,645

The following table presents an aging of loans in the new and non-ACI portfolios at the dates indicated. Amounts are net of premiums, discounts, deferred fees and costs (in thousands):

	September 30, 2013					December 31, 2012				
	Current	30 - 59 Days Past Due	60 - 89 Days Past Due	90 Days or More Past Due or in Foreclosure	Total	Current	30 - 59 Days Past Due	60 - 89 Days Past Due	90 Days or More Past Due or in Foreclosure	Total
New loans:										
1-4 single family residential	$ 1,624,073	$ 6,391	$ 50	$ 505	$ 1,631,019	$ 927,859	$ 7,458	$ 161	$ 193	$ 935,671
Home equity loans and lines of credit	1,657				1,657	1,811	143			1,954
Multi-family	658,817				658,817	306,481				306,481
Commercial real estate	1,433,006	545	1,840	51	1,435,442	793,105				793,105
Construction and land	77,944				77,944	72,002				72,002
Commercial and industrial	1,937,985	564	477	14,521	1,953,547	1,322,937	7,147	192	2,505	1,332,781
Lease financing	327,761				327,761	227,741				227,741
Consumer	154,015	581	36	75	154,707	33,488	9	45		33,542
	$ 6,215,258	$ 8,081	$ 2,403	$ 15,152	$ 6,240,894	$ 3,685,424	$ 14,757	$ 398	$ 2,698	$ 3,703,277
Non-ACI loans:										
1-4 single family residential	$ 61,192	$ 1,481	$ 582	$ 222	$ 63,477	$ 71,096	$ 4,448	$ 609	$ 2,431	$ 78,584
Home equity loans and lines of credit	121,629	2,432	510	8,042	132,613	140,975	2,170	1,835	9,767	154,747

Multi-family	633				633	712				712
Commercial real estate	357				357	910				910
Construction and land	698				698	775				775
Commercial and industrial	4,010	288		2,221	6,519	7,164	27	12	4,045	11,248
	$ 188,519	$ 4,201	$ 1,092	$ 10,485	$ 204,297	$ 221,632	$ 6,645	$ 2,456	$ 16,243	$ 246,976

ACI Loans

The accretable yield on ACI loans represents the amount by which undiscounted expected future cash flows exceed carrying value. Changes in the accretable yield on ACI loans for the nine months ended September 30, 2013 and the year ended December 31, 2012 were as follows (in thousands):

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Balance, December 31, 2011	$	1,523,615
Reclassifications from non-accretable difference		206,934
Accretion		(444,483)
Balance, December 31, 2012		1,286,066
Reclassifications from non-accretable difference		231,070
Accretion		(313,326)
Balance, September 30, 2013	$	1,203,810

Accretable yield at September 30, 2013 included expected cash flows from a pool of 1-4 single family residential loans whose carrying value had been reduced to zero. The UPB of loans remaining in this pool was $96.1 million at September 30, 2013.

Credit quality information ACI loans

ACI loans or loan pools are considered to be impaired when there has been further deterioration in the cash flows expected at acquisition plus any additional cash flows expected to be collected arising from changes in estimates after acquisition, other than due to decreases in interest rate indices and changes in prepayment assumptions. Discount continues to be accreted on ACI loans or pools as long as there are expected future cash flows in excess of the current carrying amount; therefore, these loans are not classified as non-accrual even though they may be contractually delinquent. ACI 1-4 single family residential and home equity loans accounted for in pools are evaluated for impairment on a pool basis and the amount of any impairment is measured based on the expected aggregate cash flows of the pools. ACI commercial and commercial real estate loans are evaluated individually for impairment.

The tables below set forth at the dates indicated, the carrying amount of ACI loans or pools for which the Company has determined it is probable that it will be unable to collect all the cash flows expected at acquisition plus additional cash flows expected to be collected arising from changes in estimates after acquisition, if any, as well as ACI loans not accounted for in pools that have been modified in TDRs, and the related allowance amounts (in thousands):

	September 30, 2013			December 31, 2012		
	Recorded Investment in Impaired Loans or Pools	**Unpaid Principal Balance**	**Related Specific Allowance**	**Recorded Investment in Impaired Loans or Pools**	**Unpaid Principal Balance**	**Related Specific Allowance**
With no specific allowance recorded:						
Commercial real estate	$ 373	$ 418	$	$ 104	$ 171	$
Construction and land	558	608		512	669	
Commercial and industrial				188	188	
With a specific allowance recorded:						

Multi-family	3,116	3,181	277	6,626	7,043	504
Commercial real estate	15,365	16,119	1,820	23,696	27,357	5,400
Construction and land	2,413	2,530	320	4,874	6,567	350
Commercial and industrial	4,569	5,037	928	7,580	7,959	1,765
Total:						
Residential	$	$	$	$	$	$
Commercial	26,394	27,893	3,345	43,580	49,954	8,019
	$ 26,394	$ 27,893	$ 3,345	$ 43,580	$ 49,954	$ 8,019

The following table presents the average recorded investment in impaired ACI loans or pools for the periods indicated (in thousands):

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	Three Months Ended September 30, 2013	Three Months Ended September 30, 2012	Nine Months Ended September 30, 2013	Nine Months Ended September 30, 2012
Commercial:				
Multi-family	$ 3,092	$ 11,023	$ 5,136	$ 13,264
Commercial real estate	17,884	42,877	23,813	46,491
Construction and land	2,907	11,003	4,278	14,256
Commercial and industrial	5,326	12,496	6,197	14,089
	$ 29,209	$ 77,399	$ 39,424	$ 88,100

The following table summarizes ACI loans that were modified in TDRs during the periods indicated, as well as ACI loans modified during the twelve months preceding September 30, 2013 and 2012, that experienced payment defaults during the periods indicated (dollars in thousands):

	Three Months Ended September 30, 2013				2012			
	Loans Modified in TDRs During the Period		TDRs Experiencing Payment Defaults During the Period		Loans Modified in TDRs During the Period		TDRs Experiencing Payment Defaults During the Period	
	Number of TDRs	Recorded Investment	Number of TDRs	Recorded Investment	Number of TDRs	Recorded Investment	Number of TDRs	Recorded Investment
Commercial real estate		$		$	2	$ 152		$

	Nine Months Ended September 30, 2013				2012			
	Loans Modified in TDRs During the Period		TDRs Experiencing Payment Defaults During the Period		Loans Modified in TDRs During the Period		TDRs Experiencing Payment Defaults During the Period	
	Number of TDRs	Recorded Investment	Number of TDRs	Recorded Investment	Number of TDRs	Recorded Investment	Number of TDRs	Recorded Investment
Commercial real estate	3	$ 1,313		$	3	$ 252		$
Commercial and industrial	1	168			3	317		
	4	$ 1,481		$	6	$ 569		$

Modifications during the three and nine month periods ended September 30, 2013 and 2012 included restructurings of the amount and timing of payments, extensions of maturity and modifications of interest rates. Modified ACI loans accounted for in pools are not considered TDRs, are not separated from the pools and are not classified as impaired loans.

The following tables summarize key indicators of credit quality for the Company s ACI loans at the dates indicated (in thousands):

Residential credit exposure, based on delinquency status:

	September 30, 2013		December 31, 2012	
	1-4 Single Family Residential	Home Equity Loans and Lines of Credit	1-4 Single Family Residential	Home Equity Loans and Lines of Credit
Current	$ 987,405	$ 36,147	$ 1,093,363	$ 43,226
Past due less than 90 days	41,909	1,277	63,435	1,818
Past due 90 days or more	72,265	4,684	143,311	7,455
	$ 1,101,579	$ 42,108	$ 1,300,109	$ 52,499

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Consumer credit exposure, based on delinquency status:

	September 30, 2013	December 31, 2012
Current	$ 1,610	$ 2,190
Past due less than 90 days	1	17
Past due 90 days or more	6	32
	$ 1,617	$ 2,239

Commercial credit exposure, based on internal risk rating:

	September 30, 2013				
	Multi-Family	Commercial Real Estate	Construction and Land	Commercial and Industrial	Total
Pass	$ 32,138	$ 106,017	$ 7,316	$ 2,102	$ 147,573
Special mention	479	4,562			5,041
Substandard	10,942	44,186	3,979	4,240	63,347
Doubtful		88		19	107
	$ 43,559	$ 154,853	$ 11,295	$ 6,361	$ 216,068

	December 31, 2012				
	Multi-Family	Commercial Real Estate	Construction and Land	Commercial and Industrial	Total
Pass	$ 36,068	$ 118,397	$ 6,937	$ 6,183	$ 167,585
Special mention	381	4,615			4,996
Substandard	19,699	54,794	11,127	8,198	93,818
Doubtful		13		227	240
	$ 56,148	$ 177,819	$ 18,064	$ 14,608	$ 266,639

The following table presents an aging of loans in the ACI portfolio at the dates indicated (in thousands):

	September 30, 2013					December 31, 2012				
	Current	30 - 59 Days Past Due	60 - 89 Days Past Due	90 Days or More Past Due or in Foreclosure	Total	Current	30 - 59 Days Past Due	60 - 89 Days Past Due	90 Days or More Past Due or in Foreclosure	Total
1-4 single family residential	$ 987,405	$ 32,843	$ 9,066	$ 72,265	$ 1,101,579	$ 1,093,363	$ 47,529	$ 15,906	$ 143,311	$ 1,300,109

Home equity loans and lines of credit	36,147	935	342	4,684	42,108	43,226	1,254	564	7,455	52,499
Multi-family	40,791	187		2,581	43,559	47,474	45		8,629	56,148
Commercial real estate	151,721	880	87	2,165	154,853	171,908	2,075	447	3,389	177,819
Construction and land	8,052			3,243	11,295	9,257			8,807	18,064
Commercial and industrial	3,494	55		2,812	6,361	7,762	1,951	17	4,878	14,608
Consumer	1,610	1		6	1,617	2,190	10	7	32	2,239
	$ 1,229,220	$ 34,901	$ 9,495	$ 87,756	$ 1,361,372	$ 1,375,180	$ 52,864	$ 16,941	$ 176,501	$ 1,621,486

1-4 single family residential and home equity ACI loans that are contractually delinquent by more than 90 days and accounted for in pools that are on accrual status because discount continues to be accreted totaled $76.9 million and $150.8 million at September 30, 2013 and December 31, 2012, respectively. The carrying amount of commercial and commercial real estate ACI loans that are contractually delinquent in excess of ninety days but still classified as accruing loans due to discount accretion totaled $10.5 million and $25.7 million at September 30, 2013 and December 31, 2012, respectively. As of September 30, 2013, ACI commercial real estate loans with a carrying

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value of $1.0 million were classified as non-accrual.

Note 5 FDIC Indemnification Asset

The FDIC indemnification asset was originally recognized at an amount equal to the present value of estimated future payments to be received from the FDIC under the terms of the Loss Sharing Agreements.

When the Company recognizes gains or losses related to covered assets in its consolidated financial statements, changes in the estimated amount recoverable from the FDIC under the Loss Sharing Agreements with respect to those gains or losses are also reflected in the consolidated financial statements. Covered loans may be resolved through prepayment, short sale of the underlying collateral, foreclosure, sale of the loans or, for the non-residential portfolio, charge-off. For loans resolved through prepayment, short sale or foreclosure, the difference between consideration received in satisfaction of the loans and the carrying value of the loans is recognized in the consolidated statement of income line item Income from resolution of covered assets, net. Losses from the resolution of covered loans increase the amount recoverable from the FDIC under the Loss Sharing Agreements. Gains from the resolution of covered loans reduce the amount recoverable from the FDIC under the Loss Sharing Agreements. Similarly, differences in proceeds received on the sale of OREO and covered loans and their carrying amounts result in gains or losses and reduce or increase the amount recoverable from the FDIC under the Loss Sharing Agreements. Increases in valuation allowances or impairment charges related to covered assets also increase the amount estimated to be recoverable from the FDIC. These additions to or reductions in amounts recoverable from the FDIC related to the resolution of covered assets are recorded in the consolidated statement of income line item Net loss on indemnification asset and reflected as corresponding increases or decreases in the FDIC indemnification asset.

Conversely, significant increases in future expected cash flows from the covered assets are recognized prospectively as adjustments to the yield on those assets. Those increases in expected cash flows from the assets result in decreases in the estimated amount recoverable from the FDIC under the Loss Sharing Agreements, which are also recognized prospectively, as an adjustment of the rate of accretion or amortization of the FDIC indemnification asset.

The following tables summarize the components of the gains and losses associated with covered assets, along with the related additions to or reductions in the amounts recoverable from the FDIC under the Loss Sharing Agreements, as reflected in the consolidated statements of income for the periods indicated (in thousands):

	Three Months Ended September 30, 2013			Three Months Ended September 30, 2012		
	Transaction Income (Loss)	Net Loss on Indemnification Asset	Net Impact on Pre-tax Earnings	Transaction Income (Loss)	Net Loss on Indemnification Asset	Net Impact on Pre-tax Earnings
Recovery of (provision for)losses on covered loans	$ 2,837	$ (2,304)	$ 533	$ (1,021)	$ 947	$ (74)

Income from resolution of covered assets, net	24,592	(20,120)	4,472	17,517	(15,136)	2,381
Loss on sale of covered loans	(4,286)	5,626	1,340			
Gain on sale of OREO	1,454	(1,384)	70	1,410	(1,118)	292
Recovery (impairment) of OREO	243	(195)	48	(1,385)	1,108	(277)
	$ 24,840	$ (18,377)	$ 6,463	$ 16,521	$ (14,199)	$ 2,322

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	Nine Months Ended September 30, 2013			Nine Months Ended September 30, 2012		
	Transaction Income (Loss)	Net Loss on Indemnification Asset	Net Impact on Pre-tax Earnings	Transaction Income (Loss)	Net Loss on Indemnification Asset	Net Impact on Pre-tax Earnings
Recovery of (provision for) losses on covered loans	$ 988	$ (910)	$ 78	$ (1,137)	$ 1,620	$ 483
Income from resolution of covered assets, net	64,362	(53,679)	10,683	39,602	(33,510)	6,092
Loss on sale of covered loans	(9,368)	11,794	2,426			
OTTI on covered investment securities available for sale	(963)	770	(193)			
Gain on sale of OREO	8,576	(6,885)	1,691	1,499	(1,096)	403
Recovery(impairment) of OREO	(1,456)	1,163	(293)	(7,980)	6,384	(1,596)
	$ 62,139	$ (47,747)	$ 14,392	$ 31,984	$ (26,602)	$ 5,382

Changes in the FDIC indemnification asset for the nine months ended September 30, 2013 and for the year ended December 31, 2012, were as follows (in thousands):

Balance, December 31, 2011	$ 2,049,151
Accretion	15,306
Reduction for claims filed	(600,857)
Net loss on indemnification asset	(6,030)
Balance, December 31, 2012	1,457,570
Amortization	(21,784)
Reduction for claims filed	(123,002)
Net loss on indemnification asset	(47,747)
Balance, September 30, 2013	$ 1,265,037

Under the terms of the Loss Sharing Agreements, the Company is also entitled to reimbursement from the FDIC for certain expenses related to covered assets upon final resolution of those assets. For the three months ended September 30, 2013 and 2012, non-interest expense included approximately $1.6 million and $4.8 million, respectively, of expenses subject to reimbursement at the 80% level under the Loss Sharing Agreements. For the same periods in 2013 and 2012, claims of $2.0 million and $3.6 million, respectively, were submitted to the FDIC for reimbursement. For the nine months ended September 30, 2013 and 2012, non-interest expense included approximately $5.6 million and $14.9 million, respectively, of expenses subject to reimbursement at the 80% level, and claims of $7.2 million and $13.4 million, respectively, were submitted to the FDIC for reimbursement. As of September 30, 2013, $13.6 million of expenses incurred to date remained to be submitted for reimbursement from the FDIC in future periods.

Note 6 Income Taxes

The Company s effective income tax rate of 30.9% for the three months ended September 30, 2013 differed from the statutory federal income tax rate primarily due to the reversal of $3.6 million of reserves for uncertain state income tax positions as a result of the lapse in the statute of limitations, partially offset by the impact of state income taxes. The effective income tax rate of 36.0% for the nine months ended September 30, 2013 differed from the statutory federal income tax rate primarily due to the impact of state income taxes, partially offset by the reversal of reserves for uncertain state income tax positions recognized in the third quarter. For the three and nine months ended September 30, 2012, the effective income tax rate was 39.2% for both periods and differed from the statutory federal income tax rate primarily due to the impact of state income taxes.

Note 7 Derivatives and Hedging Activities

The Company uses interest rate swaps to manage interest rate risk related to variable rate FHLB advances and certificates of deposit with maturities of one year, which expose the Company to variability in cash flows due to changes in interest rates. The Company enters into LIBOR-based interest rate swaps that are designated as cash flow hedges with the objective of limiting the variability of interest payment cash flows resulting from changes in the

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benchmark interest rate LIBOR. The effective portion of changes in the fair value of interest rate swaps designated as cash flow hedging instruments is reported in accumulated other comprehensive income (AOCI) and subsequently reclassified into interest expense in the same period in which the related interest on the floating-rate debt obligations affects earnings.

The Company also enters into interest rate derivative contracts with certain of its borrowers to enable those borrowers to manage their exposure to interest rate fluctuations. To mitigate interest rate risk associated with these derivative contracts, the Company enters into offsetting derivative contract positions with financial institution counterparties. These interest rate derivative contracts are not designated as hedging instruments; therefore, changes in the fair value of these derivatives are recognized immediately in earnings. The impact on earnings related to changes in fair value of these derivatives for the nine months ended September 30, 2013 and 2012 was not material.

The Company may be exposed to credit risk in the event of non-performance by the counterparties to its interest rate derivative agreements. The Company assesses the credit risk of its financial institution counterparties by monitoring publicly available credit rating and financial information. The Company manages dealer credit risk by entering into interest rate derivatives only with primary and highly rated counterparties, the use of ISDA master agreements and counterparty limits. The agreements contain bilateral collateral arrangements with the amount of collateral to be posted generally governed by the settlement value of outstanding swaps. The Company manages the risk of default by its borrower counterparties through its normal loan underwriting and credit monitoring policies and procedures. The Company does not currently anticipate any losses from failure of interest rate derivative counterparties to honor their obligations.

The following tables set forth certain information concerning the Company s interest rate contract derivative financial instruments and related hedged items at the dates indicated (dollars in thousands):

	September 30, 2013							
	Hedged Item	Weighted Average Pay Rate	Weighted Average Receive Rate	Weighted Average Remaining Life in Years	Notional Amount	Balance Sheet Location	Fair value Asset	Fair value Liability
Derivatives designated as cash flow hedges:								
Pay-fixed interest rate swaps	Variability of interest cash flows on certificates of deposit	3.11%	12-Month Libor	2.1	$ 225,000	Other liabilities	$	$ (15,267)
Pay-fixed interest rate swaps	Variability of interest cash flows on variable rate borrowings	1.61%	3-Month Libor	4.1	1,505,000	Other assets / Other liabilities	12,554	(31,547)
Derivatives not designated as hedges:								

Pay-fixed interest rate swaps and caps	4.18%	Indexed to 1-month Libor	4.9	208,758	Other assets / Other liabilities	349	(4,284)
Pay-variable interest rate swaps and caps	Indexed to 1-month Libor	4.18%	4.9	208,758	Other assets / Other liabilities	4,284	(349)
				$ 2,147,516		$ 17,187	$ (51,447)

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	December 31, 2012							
	Hedged Item	Weighted Average Pay Rate	Weighted Average Receive Rate	Weighted Average Remaining Life in Years	Notional Amount	Balance Sheet Location	Fair value Asset	Fair value Liability
Derivatives designated as cash flow hedges:								
Pay-fixed interest rate swaps	Variability of interest cash flows on certificates of deposit	3.11%	12-Month Libor	2.8	$ 225,000	Other liabilities	$	$ (14,622)
Pay-fixed interest rate swaps	Variability of interest cash flows on variable rate borrowings	3.75%	3-Month Libor	3.8	285,000	Other liabilities		(36,182)
Derivatives not designated as hedges:								
Pay-fixed interest rate swaps and caps		4.18%	Indexed to 1-month Libor	4.8	102,712	Other liabilities		(4,908)
Pay-variable interest rate swaps and caps		Indexed to 1-month Libor	4.18%	4.8	102,712	Other assets	4,908	
					$ 715,424		$ 4,908	$ (55,712)

The following table provides information about gains and losses related to interest rate contract derivative instruments designated as cash flow hedges for the periods indicated (in thousands):

	Three Months Ended September 30, 2013	Three Months Ended September 30, 2012	Nine Months Ended September 30, 2013	Nine Months Ended September 30, 2012
Amount of loss reclassified from AOCI into interest expense during the period (effective portion)	$ (5,815)	$ (4,536)	$ (15,160)	$ (13,420)
Amount of gain (loss) recognized in income during the period (ineffective portion)	$	$	$	$

During the nine months ended September 30, 2013 and 2012, no derivative positions designated as cash flow hedges were discontinued and none of the gains and losses reported in AOCI were reclassified into earnings as a result of the discontinuance of cash flow hedges or because of the early extinguishment of debt. As of September 30, 2013, the amount expected to be reclassified from AOCI into income during the next twelve months was $25.2 million.

Some of the Company s ISDA master agreements with financial institution counterparties contain provisions that permit either counterparty to terminate the agreements and require settlement in the event that regulatory capital ratios fall below certain designated thresholds, upon the initiation of other defined regulatory actions or upon suspension or withdrawal of the Bank s credit rating. Currently, there are no circumstances that would trigger these provisions of the agreements. Information on interest rate swaps subject to master netting agreements is as follows for the dates indicated (in thousands):

	September 30, 2013					
				Gross Amounts Not Offset in Balance Sheet		
	Gross Amounts Recognized	Gross Amounts Offset in Balance Sheet	Net Amounts Presented in Balance Sheet	Derivative Instruments	Collateral Pledged	Net Amount
Derivative assets	$ 12,903	$	$ 12,903	$ (2,982)	$ (9,803)	$ 118
Derivative liabilities	(51,098)		(51,098)	2,982	48,116	
	$ (38,195)	$	$ (38,195)	$	$ 38,313	$ 118

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	December 31, 2012					
				Gross Amounts Not Offset in Balance Sheet		
	Gross Amounts Recognized	Gross Amounts Offset in Balance Sheet	Net Amounts Presented in Balance Sheet	Derivative Instruments	Collateral Pledged	Net Amount
Derivative liabilities	$ (55,712)	$	$ (55,712)	$	$ 55,712	$

The difference between the amounts reported for interest rate swaps subject to master netting agreements and the total fair value of interest rate contract derivative financial instruments reported in the consolidated balance sheets is related to interest rate contracts entered into with borrowers not subject to master netting agreements.

At September 30, 2013, the Company has pledged investment securities available for sale with a carrying amount of $50.5 million and cash on deposit of $15.3 million as collateral for these interest rate swaps in a liability position. Financial collateral of $10.0 million was pledged by counterparties to the Company for interest rate swaps in an asset position. The amount of collateral required to be posted by the Company varies based on the settlement value of outstanding swaps, which approximates their carrying amount at September 30, 2013.

The Company enters into commitments to fund residential mortgage loans with the intention that these loans will subsequently be sold into the secondary market. A mortgage loan commitment binds the Company to lend funds to a potential borrower at a specified interest rate within a specified period of time, generally 30 to 90 days. These commitments are considered derivative instruments. The notional amount of outstanding mortgage loan commitment derivatives was $3.2 million and $8.0 million at September 30, 2013 and December 31, 2012, respectively. Outstanding derivative loan commitments expose the Company to the risk that the price of the loans arising from exercise of the commitments might decline from inception of the commitment to funding of the loan. To protect against the price risk inherent in derivative loan commitments, the Company utilizes best efforts forward loan sale commitments. Under a best efforts contract, the Company commits to deliver an individual mortgage loan to an investor if the loan to the underlying borrower closes. Generally, the price the investor will pay the Company for a loan is specified prior to the loan being funded. These commitments are considered derivative instruments once the underlying loans are funded. The notional amount of forward loan sale commitment derivatives was $0.8 million and $2.1 million at September 30, 2013 and December 31, 2012, respectively. The fair value of loan commitment and forward sale commitment derivatives was nominal at September 30, 2013 and December 31, 2012.

Note 8 Stockholders Equity

Accumulated Other Comprehensive Income

Changes in AOCI for the periods indicated are summarized as follows (in thousands):

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	Three Months Ended September 30,					
	2013			2012		
	Before Tax	**Tax Effect**	**Net of Tax**	**Before Tax**	**Tax Effect**	**Net of Tax**
Unrealized gains on investment securities available for sale:						
Net unrealized holding gain (loss) arising during the period	$ (9,402)	$ 3,622	$ (5,780)	$ 43,774	$ (16,886)	$ 26,888
Amounts reclassified to gain on investment securities available for sale, net	(1,066)	412	(654)	(6,035)	2,328	(3,707)
Net change in unrealized gains on securities available for sale	(10,468)	4,034	(6,434)	37,739	(14,558)	23,181
Unrealized losses on derivative instruments:						
Net unrealized holding loss arising during the period	(10,196)	3,933	(6,263)	(5,910)	2,280	(3,630)
Amounts reclassified to interest expense on deposits	1,268	(489)	779	1,226	(473)	753
Amounts reclassified to interest expense on borrowings	4,547	(1,754)	2,793	3,310	(1,277)	2,033
Net change in unrealized losses on derivative instruments	(4,381)	1,690	(2,691)	(1,374)	530	(844)
Other comprehensive income (loss)	$ (14,849)	$ 5,724	$ (9,125)	$ 36,365	$ (14,028)	$ 22,337

	Nine Months Ended September 30,					
	2013			2012		
	Before Tax	**Tax Effect**	**Net of Tax**	**Before Tax**	**Tax Effect**	**Net of Tax**
Unrealized gains on investment securities available for sale:						
Net unrealized holding gain (loss) arising during the period	$ (65,351)	$ 25,178	$ (40,173)	$ 100,523	$ (38,777)	$ 61,746
Amounts reclassified to gain on investment securities available for sale, net	(6,288)	2,426	(3,862)	(6,931)	2,674	(4,257)
Net change in unrealized gains on securities available for sale	(71,639)	27,604	(44,035)	93,592	(36,103)	57,489

Unrealized losses on derivative instruments:						
Net unrealized holding gain (loss) arising during the period	6,001	(2,315)	3,686	(14,372)	5,544	(8,828)
Amounts reclassified to interest expense on deposits	3,764	(1,452)	2,312	3,653	(1,409)	2,244
Amounts reclassified to interest expense on borrowings	11,396	(4,396)	7,000	9,767	(3,768)	5,999
Net change in unrealized losses on derivative instruments	21,161	(8,163)	12,998	(952)	367	(585)
Other comprehensive income (loss)	$ (50,478)	$ 19,441	$ (31,037)	$ 92,640	$ (35,736)	$ 56,904

The categories of AOCI and changes therein are presented below for the periods indicated (in thousands):

	Unrealized Gains on Investment Securities Available for Sale	Unrealized Losses on Derivative Instruments	Total
Balance, December 31, 2012	$ 113,599	$ (29,623)	$ 83,976
Other comprehensive income	(44,035)	12,998	(31,037)
Balance, September 30, 2013	$ 69,564	$ (16,625)	$ 52,939
Balance, December 31, 2011	$ 55,172	$ (37,153)	$ 18,019
Other comprehensive income	57,489	(585)	56,904
Balance, September 30, 2012	$ 112,661	$ (37,738)	$ 74,923

Preferred Stock

In February 2012, the Company created a series of 5,416,000 shares of preferred stock designated Series A Nonvoting Convertible Preferred Stock , par value $0.01 per share. The preferred stock ranked *pari passu* with the Company s common stock with respect to the payment of dividends or distributions and had a

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liquidation preference of $0.01 per share. In March 2013, each share of preferred stock outstanding was converted into one share of common stock. Following the conversion, the preferred stock resumed the status of authorized and unissued preferred stock, undesignated as to series and available for future issuance.

Note 9   Fair Value Measurements

Assets and liabilities measured at fair value on a recurring basis

Following is a description of the methodologies used to estimate the fair values of assets and liabilities measured at fair value on a recurring basis and the level within the fair value hierarchy in which those measurements are typically classified.

Investment securities available for sale Fair value measurements are based on quoted prices in active markets when available; these measurements are classified within level 1 of the fair value hierarchy. These securities typically include U.S. Treasury securities, certain preferred stocks and mutual funds. If quoted prices in active markets are not available, fair values are estimated using quoted prices of securities with similar characteristics, quoted prices of identical securities in less active markets, discounted cash flow techniques, or matrix pricing models. Investment securities available for sale that are generally classified within level 2 of the fair value hierarchy include U.S. Government agency debentures, U.S. Government agency and sponsored enterprise mortgage-backed securities, preferred stock investments for which level 1 valuations are not available, corporate debt securities, non-mortgage asset-backed securities, certain private label mortgage-backed securities, Re-Remics, private label commercial mortgage-backed securities, collateralized loan obligations, state and municipal obligations and U.S. Small Business Administration securities. Pricing of these securities is generally primarily spread driven. Observable inputs that may impact the valuation of these securities include benchmark yield curves, credit spreads, reported trades, dealer quotes, bids, issuer spreads, current rating, historical constant prepayment rates, historical voluntary prepayment rates, structural and waterfall features of individual securities, published collateral data, and for certain securities, historical constant default rates and default severities. Investment securities available for sale generally classified within level 3 of the fair value hierarchy include certain private label mortgage-backed securities and trust preferred securities. The Company typically values these securities using internally developed or third-party proprietary pricing models, primarily discounted cash flow valuation techniques, which incorporate both observable and unobservable inputs. Unobservable inputs that may impact the valuation of these securities include risk adjusted discount rates, projected prepayment rates, projected default rates and projected loss severity.

Derivative financial instruments Interest rate swaps are predominantly traded in over-the-counter markets and, as such, values are determined using widely accepted discounted cash flow modeling techniques. These discounted cash flow models use projections of future cash payments and receipts that are discounted at mid-market rates. Observable inputs that may impact the valuation of these instruments include LIBOR swap rates, LIBOR forward yield curves and counterparty credit risk spreads. These fair value measurements are generally classified within level 2 of the fair value hierarchy. Loan commitment derivatives are priced based on a bid pricing convention adjusted based on the Company s historical fallout rates. Fallout rates are a significant unobservable input; therefore, these fair value measurements are classified within level 3 of the fair value hierarchy. The fair value of loan commitment derivatives is nominal.

The following tables present assets and liabilities measured at fair value on a recurring basis at the dates indicated (in thousands):

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	September 30, 2013			
	Level 1	Level 2	Level 3	Total
Investment securities available for sale:				
U.S. Government agency and sponsored enterprise residential mortgage-backed securities	$	$ 1,558,843	$	$ 1,558,843
U.S. Government agency and sponsored enterprise commercial mortgage-backed securities		27,295		27,295
Re-Remics		427,627		427,627
Private label residential mortgage-backed securities and CMOs		120,450	204,781	325,231
Private label commercial mortgage-backed securities		530,855		530,855
Collateralized loan obligations		373,512		373,512
Non-mortgage asset-backed securities		154,126		154,126
Mutual funds and preferred stocks	145,694	250		145,944
Small Business Administration securities		320,595		320,595
Other debt securities		3,200	4,720	7,920
Derivative assets		17,187	31	17,218
Total assets at fair value	$ 145,694	$ 3,533,940	$ 209,532	$ 3,889,166
Derivative liabilities	$	$ 51,447	$ 14	$ 51,461
Total liabilities at fair value	$	$ 51,447	$ 14	$ 51,461

	December 31, 2012			
	Level 1	Level 2	Level 3	Total
Investment securities available for sale:				
U.S. Treasury and Government agency securities	$ 20,141	$ 15,013	$	$ 35,154
U.S. Government agency and sponsored enterprise residential mortgage-backed securities		1,584,523		1,584,523
U.S. Government agency and sponsored enterprise commercial mortgage-backed securities		60,416		60,416
Re-Remics		585,042		585,042
Private label residential mortgage-backed securities and CMOs		205,027	243,058	448,085
Private label commercial mortgage-backed securities		433,092		433,092
Collateralized loan obligations		253,188		253,188
Non-mortgage asset-backed securities		241,346		241,346
Mutual funds and preferred stocks	149,279	374		149,653
State and municipal obligations		25,353		25,353
Small Business Administration securities		339,610		339,610
Other debt securities		12,777	4,173	16,950
Derivative assets		4,908		4,908
Total assets at fair value	$ 169,420	$ 3,760,669	$ 247,231	$ 4,177,320
Derivative liabilities	$	$ 55,712	$ 29	$ 55,741

Total liabilities at fair value	$		$	55,712	$	29	$	55,741

There were no transfers of financial assets between levels of the fair value hierarchy during the nine months ended September 30, 2013 and 2012.

The following tables reconcile changes in the fair value of assets and liabilities measured at fair value on a recurring basis and classified in level 3 of the fair value hierarchy for the periods indicated (in thousands):

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	Three Months Ended September 30, 2013			
	Private Label Residential Mortgage-Backed Securities	Other Debt Securities	Derivative Assets	Derivative Liabilities
Balance at beginning of period	$ 219,714	$ 4,351	$ 91	$ (45)
Gains (losses) for the period included in:				
Net income			(60)	31
Other comprehensive income	(680)	381		
Premium and discount (amortization) accretion	5,165	15		
Purchases or issuances				
Sales				
Settlements	(19,418)	(27)		
Transfers into level 3				
Transfers out of level 3				
Balance at end of period	$ 204,781	$ 4,720	$ 31	$ (14)

	Three Months Ended September 30, 2012			
	Private Label Residential Mortgage-Backed Securities	Non-Mortgage Asset-Backed Securities	Other Debt Securities	Derivative Liabilities
Balance at beginning of period	$ 487,990	$ 75,194	$ 3,736	$ (4)
Gains (losses) for the period included in:				
Net income				(40)
Other comprehensive income	11,702	555	13	
Premium and discount (amortization) accretion	3,315	(886)	16	
Purchases or issuances	22,863			
Sales				
Settlements	(37,804)	(3,414)	(34)	
Transfers into level 3				
Transfers out of level 3				
Balance at end of period	$ 488,066	$ 71,449	$ 3,731	$ (44)

	Nine Months Ended September 30, 2013			
	Private Label Residential Mortgage-Backed Securities	Other Debt Securities	Derivative Assets	Derivative Liabilities
Balance at beginning of period	$ 243,058	$ 4,173	$	$ (29)
Gains (losses) for the period included in:				
Net income			31	15
Other comprehensive income	(3,366)	811		
Premium and discount (amortization) accretion	10,123	45		
Purchases or issuances				

Sales				
Settlements	(45,034)	(309)		
Transfers into level 3				
Transfers out of level 3				
Balance at end of period	$ 204,781	$ 4,720	$ 31	$ (14)

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	Nine Months Ended September 30, 2012			
	Private Label Residential Mortgage-Backed Securities	Non-Mortgage Asset-Backed Securities	Other Debt Securities	Derivative Liabilities
Balance at beginning of period	$ 387,687	$ 79,870	$ 3,159	$
Gains (losses) for the period included in:				
Net income				(44)
Other comprehensive income	17,852	932	601	
Premium and discount (amortization) accretion	10,496	(679)	47	
Purchases or issuances	167,300			
Sales				
Settlements	(95,269)	(8,674)	(76)	
Transfers into level 3				
Transfers out of level 3				
Balance at end of period	$ 488,066	$ 71,449	$ 3,731	$ (44)

Changes in the fair value of derivatives are included in the consolidated statement of income line item Other non-interest expense.

The following table provides information about the valuation techniques and unobservable inputs used in the valuation of financial instruments falling within level 3 of the fair value hierarchy (dollars in thousands):

	Fair Value at September 30, 2013	Valuation Technique	Unobservable Input	Range (Weighted Average)
Private label residential mortgage-backed securities and CMOs - Covered	$ 179,579	Discounted cash flow	Voluntary prepayment rate	2.64% - 12.33% (6.66%)
			Probability of default	0.04% - 19.12% (4.69%)
			Loss severity	0.00% - 55.10% (18.24%)
Private label residential mortgage-backed securities and CMOs - Non-covered	$ 25,202	Discounted cash flow	Voluntary prepayment rate	9.47% - 18.94% (15.05%)
			Probability of default	0.60% - 1.11% (0.87%)
			Loss severity	0.51% - 16.03% (7.55%)

The significant unobservable inputs impacting the fair value measurement of private label residential mortgage-backed securities include voluntary prepayment rates, probability of default and loss severity given default. Generally, significant increases in any of those inputs would result in a lower fair value measurement. Alternatively, decreases in any of those inputs would result in a higher fair value measurement. The fair value measurements of those securities with higher levels of subordination will be less sensitive to changes in these unobservable inputs, while securities with lower levels of subordination will show a higher degree of sensitivity to changes in these unobservable inputs. Generally, a change in the assumption used for probability of default is accompanied by a directionally similar change in the assumption used for loss severity given default and a directionally opposite change in the assumption used for voluntary prepayment rate.

Non-covered private label residential mortgage-backed securities for which fair value measurements are classified in level 3 of the fair value hierarchy at September 30, 2013 had an aggregate fair value of $25.2 million. These securities consisted of senior tranches issued from 2003 to 2004 collateralized by prime fixed rate and hybrid 1-4 single family residential mortgages originated from 2002 to 2004. These securities have coupons ranging from 2.6% to 4.6%, ratings ranging from Baa1 to A and subordination levels ranging from 7.2% to 11.3%.

The covered securities for which fair value measurements are categorized in level 3 of the fair value hierarchy at September 30, 2013 consisted of pooled trust preferred securities with a fair value of $4.7 million and private label residential mortgage-backed securities with a fair value of $179.6 million. The trust preferred securities are not material to the Company s financial statements. The private label mortgage-backed securities were acquired in the FSB Acquisition and vary significantly with respect to seniority, subordination, collateral type and collateral

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performance; however, because of the Loss Sharing Agreements, the Company has minimal risk with respect to fluctuations in the value of these securities.

The Company uses third-party pricing services in determining fair value measurements for investment securities. To obtain an understanding of the methodologies and assumptions used, management reviews written documentation provided by the pricing services, conducts interviews with valuation desk personnel, performs on-site walkthroughs and reviews model results and detailed assumptions used to value selected securities as considered necessary. Management has established a robust price challenge process that includes a review by the treasury front office of all prices provided on a monthly basis. Any price evidencing unexpected month over month fluctuations or deviations from expectations is challenged. If considered necessary to resolve any discrepancies, a price will be obtained from an additional independent valuation source. The Company does not typically adjust the prices provided, other than through this established challenge process. The results of price challenges are subject to review by executive management. The Company has also established a quarterly process whereby prices provided by its primary pricing service for a sample of securities are validated. When there are price discrepancies, the final determination of fair value is based on careful consideration of the assumptions and inputs employed by each of the pricing sources.

Assets and liabilities measured at fair value on a non-recurring basis

Following is a description of the methodologies used to estimate the fair values of assets and liabilities measured at fair value on a non-recurring basis, and the level within the fair value hierarchy in which those measurements are typically classified.

Impaired loans and OREO - The carrying amount of collateral dependent impaired loans is typically based on the fair value of the underlying collateral, which may be real estate or other business assets, less estimated costs to sell. The carrying value of OREO is initially measured based on the fair value of the real estate acquired in foreclosure and subsequently adjusted to the lower of cost or estimated fair value, less estimated cost to sell. Fair values of real estate collateral are typically based on real estate appraisals which utilize market and income approaches to valuation incorporating both observable and unobservable inputs. When current appraisals are not available, the Company may use brokers price opinions, home price indices or other available information about changes in real estate market conditions to adjust the latest appraised value available. These adjustments to appraised values may be subjective and involve significant management judgment. The fair value of collateral consisting of other business assets is generally based on appraisals that use market approaches to valuation incorporating primarily unobservable inputs. Fair value measurements related to collateral dependent impaired loans and OREO are classified within level 3 of the fair value hierarchy.

The following tables present assets for which nonrecurring changes in fair value have been recorded for the periods indicated (in thousands):

		Gains (Losses) from Fair Value Changes
	September 30, 2013	

	Level 1	Level 2	Level 3	Total	Three Months Ended September 30, 2013	Nine Months Ended September 30, 2013
OREO	$	$	$ 48,510	$ 48,510	$ 243	$ (1,456)
Impaired loans	$	$	$ 13,377	$ 13,377	$ (2,412)	$ (17,979)

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	September 30, 2012				Losses from Fair Value Changes	
					Three Months Ended	Nine Months Ended
	Level 1	Level 2	Level 3	Total	September 30, 2012	
OREO	$	$	$ 89,221	$ 89,221	$ (1,385)	$ (7,980)
Impaired loans	$	$	$ 5,123	$ 5,123	$ (1,301)	$ (1,301)

The following table presents the carrying value and fair value of financial instruments and the level within the fair value hierarchy in which those measurements are classified at the dates indicated (dollars in thousands):

		September 30, 2013		December 31, 2012	
	Level	Carrying Value	Fair Value	Carrying Value	Fair Value
Assets:					
Cash and cash equivalents	1	$ 525,679	$ 525,679	$ 495,353	$ 495,353
Investment securities available for sale	1/2/3	3,871,948	3,871,948	4,172,412	4,172,412
Non-marketable equity securities	2	149,816	149,816	133,060	133,060
Loans held for sale	2	844	857	2,129	2,151
Loans:					
Covered	3	1,536,886	2,295,422	1,846,482	2,508,466
Non-covered	3	6,210,058	6,190,215	3,666,136	3,718,377
FDIC Indemnification asset	3	1,265,037	932,033	1,457,570	1,285,434
Accrued interest receivable	2	24,841	24,841	22,059	22,059
Derivative assets	2/3				